

USAID Grant Agreement No. 391-008

SPECIAL OBJECTIVE GRANT AGREEMENT

BETWEEN THE

UNITED STATES OF AMERICA

AND

THE ISLAMIC REPUBLIC OF PAKISTAN

FOR

EARTHQUAKE RECONSTRUCTION

JANUARY 21, 2006

Islamic Republic of Pakistan City of Islamabad Embassy of the United States of America		SS:
I, Vice Consul of the United States of America at Islamabad, Pakistan, duly commissioned and qualified, do hereby certify that the foregoing is a true and faithful copy of the original, the same having been carefully examined by me and compared with the said original and found to agree therewith word for word and figure for figure.		
IN WITNESS WHEREOF I have here unto set my hand and affixed the seal of the Embassy of the United States of America at Islamabad, Pakistan, this <u>26th</u> day of <u>January</u> <u>2006</u>		
CONSUL OF THE UNITED STATES OF AMERICA		

Special Objective Grant Agreement

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SPECIAL OBJECTIVE GRANT AGREEMENT

Dated: January 21, 2006

Between

The United States of America, acting through the United States Agency for International Development ("USAID")

and

The Islamic Republic of Pakistan, acting through the Economic Affairs Division of the Ministry of Economic Affairs & Statistics, Government of Pakistan (hereinafter referred to as the "Grantee")

Article 1: Purpose.

The purpose of this Special Objective Grant Agreement ("Agreement") is to set out the understanding of the parties named above (the "Parties") about the Special Objective described below.

Article 2: Special Objective and Results.

Section 2.1. Special Objective. The Special Objective (the "Objective") is to strengthen health and education systems and restore livelihoods for communities and individuals affected by the October 8, 2005 earthquake in selected areas of Pakistan's North-West Frontier Province ("NWFP") and Azad Jammu and Kashmir ("AJK").

Section 2.2. Results. In order to achieve the Objective, the Parties agree to work together to achieve the following results (the "Results"):

2.2.1. Strengthened Health Systems in Earthquake-Affected Areas. This Result and indicators of achievement are further described in Annex 1.

2.2.2. Strengthened Education Systems in Earthquake-Affected Areas. This Result and indicators of achievement are further described in Annex 1.

2.2.3. Restored Livelihood Opportunities for Individuals in Earthquake-Affected Areas. This Result and indicators of achievement are further described in Annex 1.

Within the limits of the definition of the Objective in Section 2.1, this Section 2.2 may be changed by written agreement of the authorized representatives of the Parties without formal amendment to the Agreement.

Section 2.3. Annex 1, Amplified Description. Annex 1, attached, amplifies the above Objective and Results. Within the limits of the above definition of the Objective in Section 2.1, Annex 1 may be changed by written agreement of the authorized representatives of the Parties without formal amendment of this Agreement.

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Article 3: Contributions of the Parties.

Section 3.1. USAID Contribution.

(a) The Grant. To help achieve the Objective set forth in this Agreement, USAID, pursuant to the Foreign Assistance Act of 1961, as amended, hereby grants to the Grantee under the terms of the Agreement not to exceed FOURTEEN MILLION NINE HUNDRED FIFTY THOUSAND United States ("U.S.") Dollars (\$14,950,000) (the "Grant").

(b) Total Estimated USAID Contribution. USAID's total estimated contribution to achievement of the Objective will be U.S.\$200,000,000, which will be provided in increments. Subsequent increments will be subject to the availability of funds to USAID for this purpose and the mutual agreement of the Parties, at the time of each subsequent increment, to proceed.

(c) Unilateral De-obligation. If at any time USAID determines that its contribution under Section 3.1(a) exceeds the amount which reasonably can be committed for achieving the Objective or Results or activities during the current or next U.S. fiscal year, USAID may, upon written notice to the Grantee, withdraw the excess amount, thereby reducing the amount of the Grant as set forth in Section 3.1(a), or amend Annex 1 to shift USAID funding among activities. Actions taken pursuant to this subsection will not revise USAID's total estimated contribution set forth in Section 3.1(b).

Section 3.2. Grantee Contribution.

(a) The Grantee agrees to provide or cause to be provided all funds, in addition to those provided by USAID and any other donor identified in Annex 1, and all other resources required to complete, on or before the Completion Date, all activities necessary to achieve the Results.

(b) The Grantee's contribution, based on USAID's contribution in section 3.1(a), will not be less than the equivalent of U.S. \$3,750,000, including in-kind contributions. The Grantee's Total Estimated Planned Contribution to the Objective will not be less than the equivalent of U.S. \$50,000,000, including in-kind contributions, subject to availability of funds to the Grantee for this purpose, the mutual agreement of the Parties, at the time of each subsequent increment, to proceed, and USAID providing the total estimated amount in Section 3.1(b). The Grantee will report at least annually in a format to be agreed upon with USAID on its cash and "in-kind" contributions.

Article 4: Completion Date.

(a) The Completion Date, which is September 30, 2010, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all the activities necessary to achieve the Objective and Results will be completed.

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(b) Except as USAID may otherwise agree to in writing, USAID will not issue or approve documentation which would authorize disbursement of the Grant for services performed or goods furnished after the Completion Date.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Implementation Letters, are to be received by USAID no later than nine (9) months following the Completion Date, or such other period as USAID agrees to in writing before or after such period. After such period USAID, at any time or times, may give notice in writing to the Grantee and reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Implementation Letters, were not received before the expiration of such period.

Article 5: Conditions Precedent to Disbursement.

Section 5.1. First Disbursement. Prior to the first disbursement under the Grant, or to the issuance by USAID of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to USAID in form and substance satisfactory to USAID:

(a) A statement in the name of the person holding or acting in the office of the Grantee specified in Section 7.2, and of any additional representatives, together with a specimen signature of each person specified in such statement.

Section 5.2. Notification. USAID will promptly notify the Grantee when USAID has determined that the conditions precedent have been met.

Section 5.3. Terminal Dates for Conditions Precedent. The terminal date for meeting the conditions specified in Section 5.1 is ninety (90) days from the date of this Agreement, or such later date as USAID may agree to in writing before or after the above terminal date. If the conditions precedent in Section 5.1 have not been met by the above terminal date, USAID, at any time, may terminate this Agreement by written notice to the Grantee.

Article 6: Special Covenants.

Section 6.1. The Grantee affirms that the Objective and Results agreed to in this Agreement and amplified in Annex 1 reflect the national priorities of the Grantee with respect to reconstruction in the aftermath of the October 8, 2005 earthquake in Pakistan.

Section 6.2. Sub-committing, Sub-obligating and Disbursing Grant Funds. With respect to disbursements made under this Agreement, after satisfaction by the Grantee of the Conditions Precedent set forth in Section 5.1, the Grantee hereby agrees that USAID may disburse Grant funds available under Section 3.1(a), whether such use covers Foreign Exchange or Local Currency Costs described in Annex 2 ("Standard Provisions") hereof or otherwise, so long as such actions and disbursements are consistent with the terms and conditions of Annex 1 ("Amplified Description"), including the GOP concurrence on project priorities and selection. USAID shall periodically inform

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the Grantee of all disbursements directly made by USAID under this Agreement, providing the Grantee with the amount(s) and purpose(s) of such disbursement(s).

Article 7: Miscellaneous.

Section 7.1. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram, telefax or cable, and will be deemed duly given or sent when delivered to such Party at the following address:

To USAID:

Mail Address:

Office of the Director
United States Agency for International Development
United States Embassy
Diplomatic Enclave, Ramna 5
Islamabad, Pakistan

Fax: (+92-51) 287-0310

To the Grantee:

Mail Address:

Secretary, Economic Affairs Division,
Ministry of Economic Affairs & Statistics
Block C
Pakistan Secretariat
Islamabad

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

Section 7.2. Representatives. (a) For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of Secretary, Economic Affairs Division of the Ministry of Economic Affairs & Statistics. USAID will be represented by the individual holding or acting in the Office of Mission Director, USAID/Pakistan. Each representative, by written notice, may designate additional representatives for all purposes for which such representative is responsible. The names of the representatives of the Grantee, with specimen signatures, will be provided to USAID, which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 7.3. Standard Provisions Annex. A "Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

IN WITNESS WHEREOF, the United States of America and the Grantee, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

UNITED STATES OF AMERICA

THE ISLAMIC REPUBLIC OF PAKISTAN

By: Lisa Chiles

Name: Lisa Chiles

Title: Director, USAID Mission to
Pakistan

By: Ahmed Jawad

Name: Ahmed Jawad

Title: Additional Secretary, Economic
Affairs Division

Witnessed By

UNITED STATES OF AMERICA

THE ISLAMIC REPUBLIC OF PAKISTAN

By: R. Nicholas Burns

Name: R. Nicholas Burns

Title: Under Secretary of State for
Political Affairs

By: Hina Rabbani Khar

Name: Hina Rabbani Khar

Title: Minister of State for Economic Affairs

SOAG Annex 1

Amplified Description

I. Introduction

This annex describes the activities to be undertaken and the results to be achieved with the funds obligated under this Agreement. As used in this Annex, the "Agreement" refers to the Special Objective Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement. Nothing in this Annex 1 shall be construed as amending any of the definitions or terms of the Agreement.

II. Background

The damage caused by the earthquake that hit northern Pakistan on October 8, 2005 was cataclysmic. To date, over 73,000 lives have been lost and nearly 70,000 persons sustained injuries from falling debris and landslides. Throughout the region entire blocks of buildings; water and sanitation systems; and infrastructure for transportation, power and communications were destroyed or suffered significant damage. A disproportionate number of public buildings in affected towns in both North West Frontier Province (NWFP) and Azad Jammu and Kashmir (AJK) were completely destroyed or severely damaged compared to private buildings.

In each location the hardest hit buildings were schools, healthcare facilities, police stations, administration offices and military installations. While numbers of destroyed public buildings remain unconfirmed, preliminary estimates state that in AJK 238 medical facilities (all levels) and 3,500 education institutions (all levels) have been completely and/or partially destroyed while in NWFP, government estimates state that 388 medical facilities (all levels) and 2,500 educational institutions (all levels) have been completely and/or partially destroyed. Consequently, thousands of teachers, healthcare providers, policemen, civil servants and military personnel were among those killed or badly injured. In addition, public systems that support essential services, including logistics and administration for healthcare and education, no longer exist or are otherwise unable to perform even basic functions.

As stated in Article 2 of the body of this Agreement, the Objective of this Agreement is to strengthen health and education systems and restore livelihoods for communities and individuals affected by the earthquake in selected areas of NWFP and AJK.

III. Funding

Financial Plan. The financial plan for the program is set forth in the attached table. Changes may be made to the financial plan by representatives of the Parties without formal amendment to the Agreement, if such changes do not cause (1) USAID's contribution to exceed the amount specified in Section 3.1 of the Agreement, or (2) the Grantee's contribution to be less than the amount specified in Section 3.2 of the Agreement.



IV. Results to be Achieved/Activity Selection

In order to achieve the Objective and Results set forth in this Agreement, the reconstruction efforts undertaken will focus on the health and education sectors. It is a priority for the Grantee to return students and teachers to the classroom and to make healthcare facilities and services available to those in need of preventive health care and medical attention. In addition, the Agreement will also include a livelihoods component. "Turn key" operations are expected which will include construction, essential equipment, furnishings and trained personnel for each new structure and also result in improved management systems. The Parties agree that activities undertaken as part of this Agreement should occur in selected areas where USAID's Disaster Assistance Response Teams began working in the immediate aftermath of the earthquake and established good working relationships with local counterparts and communities. The Parties also agree on the general principal of reconstruction from "the ground up" through public awareness and participation in the design and construction of new facilities where possible. Such an approach is expected to obtain local ownership of reconstruction efforts which will promote transparency and help ensure sustainability of the projects.

In order to achieve the Objective of this Agreement, the Parties intend to achieve the following three Results through the types of activities set forth below:

A. Strengthened Health Systems in Earthquake-Affected Areas.

As part of the overall objective to increase access to quality health services in areas of greatest earthquake damage and destruction, activities may focus on the design and construction of new turn-key secondary hospitals (Tehsil Headquarter Hospitals (THQs)) and associated primary health care facilities.

In addition, in order to achieve this Result, other activities may be selected which focus reconstruction resources to help recover the lost workforce, as well as strengthening systems and capacities of the public health community. Such activities may include, in coordination with AJK and NWFP officials, enhancement of the quality of civilian health services through the training of healthcare providers, particularly in quality primary care, maternal and child health and nutrition services and interventions. Additional activities may include piloting of innovative models with the public health community to better plan, manage, implement and sustain an integrated package of primary healthcare services consistent with the Grantee's national programs. Examples may include strengthening of the referral system for tehsil-level patients requiring more complicated diagnostic and treatment procedures while ensuring community outreach that includes essential services and counseling to even those families living in isolated villages within the affected areas. Both would likely result in re-established systems that would improve the overall availability of basic and life-saving services.

Additional activities may also strengthen community based rehabilitation centers and local prosthetic services and help the injured return to their families, communities and schools. Such activities may address those physically disabled (amputations, other physical impairments) as a result of the earthquake. Within the existing health care structure or through appropriate Pakistani NGOs, activities may pilot rehabilitation centers and community outreach programs that will strengthen staff



skills and knowledge in the field of rehabilitative services (i.e., physical and occupational therapy) while taking into account outpatient rehabilitation requirements such as reintegration back into families, communities, and schools.

Given the widespread signs of psycho-social trauma, structured opportunities for children to study, play, and socialize throughout the day are also critical. Activities may be selected which would develop a three-pronged, interactive, intervention strategy that will focus collectively on children, caregivers, and teachers helping to establish a sense of normalcy for those most in need.

B. Strengthened Education Systems in Earthquake-Affected Areas.

In order to reach this result, activities selected may focus on the design and construction of new turn-key public schools at the primary, middle school and high school levels, as well as other associated structures, to ensure that young people have quality schools for good basic education. An assessment may also be done to gauge the potential for rebuilding vocational schools. Depending on the results of the assessment vocation schools may be rebuilt. Specific school sites would be selected, in part, on the basis of land availability, critical mass of children, geo-technical suitability, and ready access to power, sanitation and water. The design and constructions of structures would include appropriate earthquake resistant features. In parallel, activities may be designed that would initiate a teacher's training program to recover lost workforce and provide capacity building to government officials working within the district education administration.

C. Restored Livelihood Opportunities for Individuals in Earthquake-Affected Areas.

Several initiatives may be designed and implemented by USAID that cater to the needs of local affected communities, help rejuvenate their livelihoods, and generate economic growth within the region. These activities may include, without limitation, assistance to one or more of the following: 1) small farmers to gain access to seeds, livestock and other inputs necessary to regain and improve upon their pre-earthquake production levels, 2) reopen markets and/or improve regional trading opportunities, 3) revitalize local industries, 4) improve small and medium enterprise access to financial services, 5) explore and promote development of a select number of new business opportunities/enterprises; 6) impart training to people, especially widows and disabled, in various vocations related with reconstruction, enterprise development, etc. to help them improve their incomes; 7) introduce cash-for-work activities to inject cash in local economy; 8) identify and disseminate appropriate, earthquake resistant building technologies for reconstruction to help built back better.

The final composition of this portion of the livelihoods program will be based on a needs assessment that is currently under way. All activities will be undertaken as part of an effort to generate a local economic development planning process that includes stakeholders from government, the affected communities and local businesses. As with most of the activities, women and marginalized groups are expected to be at least 35% of the recipients targeted with this aid.

V. Indicators

Indicators of achievement of the three Results set forth above include (in cases where construction activity is contemplated, the indicator assumes construction in accordance with internationally recognized earthquake resistant building standards and access for the handicapped):

A. Strengthened Health Systems in Earthquake-Affected Areas.

Preliminary Indicator (additional indicators of this Result and revised targets may be added by mutual agreement of the Parties as set forth in a subsequent Implementation Letter(s)):

1. Number of healthcare facilities constructed: The preliminary target for this indicator is up to twenty-five (25) healthcare facilities in the first year of this Agreement.

B. Strengthened Education Systems in Earthquake-Affected Areas.

Preliminary Indicator (additional indicators of this Result and revised targets may be added by mutual agreement of the Parties as set forth in a subsequent Implementation Letter(s)):

1. Number of schools constructed. The preliminary target for this indicator is up to sixty (60) schools. The initial target will be to construct approximately the same number of schools in the NWFP and AJK.

C. Increased Livelihood Opportunities for Individuals in Earthquake-Affected Areas.

Preliminary Indicators and targets are to be established by mutual agreement of the Parties in a subsequent Implementation Letter(s).

VI. Roles and Responsibilities of the Parties

The schedule for achievement of the Results will depend on discussions between USAID and officials of the Grantee as well as coordination with other donors and counterparts. Donor coordination and Grantee input will be essential to identify sites and types of construction. It is essential that coordination take place between USAID and the Grantee at a national, provincial and district level. Coordination at each of these levels will also need to extend to other donors at every stage to maximize the use of available resources and to avoid unnecessary duplication.

The responsibility for coordination among donors, as well as coordination and oversight of all reconstruction activities both under this Agreement and outside of this Agreement, rests with the Grantee and, in particular, its Earthquake Rehabilitation and Reconstruction Authority (ERRA). As part of this Agreement, USAID may provide technical assistance to the ERRA as appropriate.

For school and health facility construction, implementing partners may include Pakistani and U.S. construction firms, a model which was successfully employed in previous construction projects in Pakistan. Use of Pakistani firms will bolster the local economy and tap into essential local knowledge and experience. New building construction will adhere to international earthquake standards and support the concept of "build back better". In addition to building to earthquake resistant standards, all buildings would also

ensures disability accessibility for the growing number of amputees and severely physically disabled.

To ensure that newly constructed schools and health facilities are operational, activities involving the design and implementation of capacity-building programs may be accomplished through a combination of grants and cooperative agreements with international and indigenous NGOs.

In the areas of livelihoods and training in improving building practices, other partners are expected to include the private sector, local civil society, and micro-finance institutions as well as involving communities and supporting citizen participation. Where possible, IDPs (Internally Displaced Persons) and other victims would be employed as construction labor and trained for new careers in health and education to replace the staff that did not survive. As part of the reconstruction, activities would seek to work with local and provincial authorities to ensure that schools and hospitals are staffed and equipped with a combination of local and international staff and supplies, while transitioning to a total local workforce as new staff are trained.

VII. Monitoring and Evaluation

USAID and the Grantee jointly agree to provide resources and information to insure an adequate level of monitoring and evaluation needed to assess progress towards achievement of the Objective and Results.

Joint USAID/GOP progress reviews will be conducted at least quarterly, based on the indicators used to measure progress in achieving the Results. A monitoring framework, plan and related performance data will be developed and agreed upon.

Financial audits of various activities and assistance instruments will be conducted in accordance with relevant standard provisions contained in Annex 2 of this Agreement.

As determined during the course of implementation of this Agreement, USAID and the Grantee plan, from time to time, to jointly authorize an external evaluation of the progress and impact of the activities towards accomplishing the Objective and the Results.

It is anticipated that each contracting/assistance instrument financed under this Agreement will include a performance-monitoring tool to permit USAID and the Grantee to evaluate progress towards the goals and objectives of the respective instrument.

VIII. Other Implementation Issues

The Parties agree that with respect to the audit provisions set forth in Section B.5 of Annex 2 to this Agreement (Standard Provisions), to the extent USAID funds non-Grantee implementing partners directly for activities under this Agreement, USAID will include necessary audit provisions in its implementing agreements with such partners in lieu of the Grantee submitting the required audit plan described in that Section.

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ILLUSTRATIVE BUDGET FY06-FY09 EARTHQUAKE RECONSTRUCTION <i>(in thousands USD)</i>								
	FY06		FY07		FY08		FY09	
	USAID	GOP	USAID	GOP	USAID	GOP	USAID	GOP
Total Estimated Contribution	57,800	12,500	50,000	12,500	50,000	12,500	42,200	12,500
Construction and Procurement	34,565							
Technical Assistance and Capacity Building	12,255							
Restored Livelihood Opportunities	8,980							
Program Support/ Operating Expenses	2,000							

Note 1: All amounts are estimates and are subject to the availability of funds for the purposes described in the Agreement as well as the other terms and conditions of the Agreement and applicable law.

Note 2: The "Program Support / Operating Expenses" includes \$90K for the program related operating expenditures incurred before this agreement.

Note 3: References to "FY" refer to the U.S. government fiscal year with respect to the USAID contribution and the fiscal year of the Grantee with respect to Grantee contributions.

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Standard Provisions

Article A: Definitions and Implementation Letters.

Section A.1. Definitions. As used in this Annex, the "Agreement" refers to the Special Objective Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

Section A.2. Implementation Letters. To assist the Grantee in the implementation of the Agreement, USAID, from time to time, will issue Implementation Letters that will furnish additional information about matters stated in this Agreement. The Parties may also issue jointly agreed-upon Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Implementation Letters can also be issued to record revisions or exceptions which are permitted by the Agreement.

Article B: General Covenants.

Section B.1. Consultation. The Parties will cooperate to assure that the Objective and Results of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on progress towards the Objective and Results, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged under the Agreement, and other matters relating to the Agreement.

Section B.2. Execution of Agreement. The Grantee will:

- (a) Carry out the Agreement or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules, or other arrangements, and with any modifications therein, approved by USAID pursuant to this Agreement; and
- (b) Provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of activities financed under the Agreement, and, as applicable for continuing activities, cause those activities to be operated and maintained in such manner as to assure the continuing and successful achievement of the Objective and Results of the Agreement.

Section B.3. Utilization of Goods and Services.

- (a) Any goods and services financed under this Agreement, unless otherwise agreed in writing by USAID, will be devoted to the Agreement until the completion or termination of the Agreement, and thereafter (as well as during any period of suspension of the Agreement) will be used to further the Objective of the Agreement and as USAID may direct in Implementation Letters.

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(b) Goods or services financed under this Agreement, except as USAID may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in USAID Geographic Code 935 as in effect at the time of such use.

Section B.4. Taxation.

(a) General Exemption. The Agreement and the assistance thereunder is free from any taxes imposed under laws in effect in the territory of the Grantee.

(b) Except as provided otherwise in this provision, the General Exemption in subsection (a) applies to, but is not limited to (1) any activity, contract, grant or other implementing agreement financed by USAID under this Agreement; (2) any transaction or supplies, equipment, materials, property or other goods (hereinafter collectively "goods") under (1) above; (3) any contractor, grantee, or other organization carrying out activities financed by USAID under this Agreement; (4) any employee of such organizations; and (5) any individual contractor or grantee carrying out activities financed by USAID under this Agreement.

(c) Except as provided otherwise in this provision, the General Exemption in subsection (a) applies to, but is not limited to, the following taxes:

(1) Exemption 1. Customs duties, tariffs, import taxes, or other levies on the importation, use and re-exportation of goods or the personal belongings and effects (including personally-owned automobiles) for the personal use of non-national individuals or their family members.

Exemption 1 includes, but is not limited to, all charges based on the value of such imported goods, but does not include service charges directly related to services performed to transfer goods or cargo.

(2) Exemption 2. Taxes on the income, profits or property of all (i) non-national organizations of any type, (ii) non-national employees of national and non-national organizations, or (iii) non-national individual contractors and grantees. Exemption 2 includes income and social security taxes of all types and all taxes on the property, personal or real, owned by such non-national organizations or persons. The term "national" refers to organizations established under the laws of the Grantee and citizens of the Grantee, other than permanent resident aliens in the United States.

(3) Exemption 3. Taxes levied on the last transaction for the purchase of goods or services financed by USAID under this Agreement, including sales taxes, value-added taxes (VAT), or taxes on purchases or rentals of real or personal property. The term "last transaction" refers to the last transaction by which the goods or services were purchased for use in the activities financed by USAID under this Agreement.

(d) If a tax has been levied and paid contrary to the provisions of an exemption, USAID may, in its discretion, (1) require the Grantee to refund

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to USAID or to others as USAID may direct the amount of such tax with funds other than those provided under the Agreement, or (2) offset the amount of such tax from amounts to be disbursed under this or any other agreement between the Parties.

(e) In the event of a disagreement about the application of an exemption, the Parties agree to promptly meet and resolve such matters, guided by the principle that the assistance furnished by USAID is free from direct taxation, so that all of the assistance furnished by USAID will contribute directly to the economic development of the country of the Grantee.

Section B.5. Reports and Information, Agreement Books and Records, Audits, and Inspections.

(a) Reports and Information. The Grantee shall furnish USAID accounting records and such other information and reports relating to the Agreement as USAID may reasonably request.

(b) Grantee Agreement Books and Records. The Grantee shall maintain accounting books, records, documents and other evidence relating to the Agreement, adequate to show, without limitation, all costs incurred by the Grantee under the Agreement, the receipt and use of goods and services acquired under the Agreement by the Grantee, agreed-upon cost sharing requirements, the nature and extent of solicitations of prospective suppliers of goods and services acquired by the Grantee, the basis of award of Grantee contracts and orders, and the overall progress of the Agreement toward completion ("Agreement books and records"). The Grantee shall maintain Agreement books and records in accordance with generally accepted accounting principles prevailing in the United States, or at the Grantee's option, with approval by USAID, other accounting principles, such as those (1) prescribed by the International Accounting Standards Committee (an affiliate of the International Federation of Accountants) or (2) prevailing in the country of the Grantee. Agreement books and records shall be maintained for at least three years after the date of last disbursement by USAID or for such longer period, if any, required to resolve any litigation, claims or audit findings.

(c) Grantee Audit. If \$300,000 or more of USAID funds are expended directly by the Grantee in its fiscal year under the Agreement, the Grantee shall have financial audits made of the expenditures in accordance with the following terms, except as the Parties may otherwise agree in writing:

(1) With USAID approval, the Grantee shall use its Supreme Audit Institution or select an independent auditor in accordance with the "Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the USAID Inspector General ("Guidelines"), and the audits shall be performed in accordance with the Guidelines; and

(2) The audit shall determine whether the receipt and expenditure of the funds provided under the Agreement are presented in accordance with generally accepted accounting principles agreed to in section (b) above and whether the